RAFIKI MICROFINANCE BANK LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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Rafiki Microfinance Bank Limited and Subsidiaries
Annual report and consolidated financial statements
For the year ended 31 December 2022

Contents | **Page**

Board of directors

Daniel Mavindu	Chairperson
Joseph Njuguna	Chief Executive Officer
Aggrey Jonathan K. Bett	Director
Stephen Mugwe Thuo	Director

Board audit committee

Stephen Mugwe Thuo	Chairperson
Aggrey Jonathan K. Bett	Member

Board risk committee

Aggrey Jonathan K. Bett	Chairperson
Stephen Mugwe Thuo	Member

Board credit committee

Aggrey Jonathan K. Bett	Chairperson
Joseph Njuguna	Chief Executive Officer (Member)
Stephen Mugwe Thuo	Member

HR,Strategy & Governance Committee

Aggrey Jonathan K. Bett	Chairperson
Daniel Mbuvi Mavindu	
Stephen Mugwe Thuo	
Joseph Njuguna	

Executive committee

Joseph Njuguna	Chairperson
Paul Karanja	
Judith Ndunge	
Ken Watitu	
Teresia Kinuthia	
Richard Murage	
Rispah Victoria Tynka Otwoma	
John Mathiaka	
Hellen Nyaboke	
Hellen Mutunga	

Assets and liabilities committee

Joseph Njuguna	Chairperson
Paul Karanja	
Kennedy Watitu	
Tabitha Michugu	
Tynka Otwoma	
Anne Ruo	
Teresia Kinuthia	
Purity Gachimbi	

Registered office

LR No. 209/2604
Rafiki House
Biashara Street
P.O Box 127500 - 00400
Nairobi

Company secretary

James Karanja Mwangi
Certified Public Secretary (Kenya)
P O Box 60240 – 00200
Nairobi

Principal bankers

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Riverside Mews
P O Box 34886 - 00100
Nairobi

Co-operative Bank Kenya Limited
Tom Mboya Branch
P O Box 10179 – 00400
Nairobi

National Bank of Kenya Limited
Moi Avenue Branch
P O Box 72866 – 00200
Nairobi

Equity Bank Kenya Limited
Moi Avenue Branch
P O Box 8180 – 00100
Nairobi

Central Bank of Kenya
Haile Selassie Avenue
P O Box 60000 - 00200
Nairobi

Housing Finance Bank
Westlands Branch
P O Box 30088 - 00100
Nairobi

Eco Bank Limited
Muindi Mbingu Street Branch
P O Box 49584 - 00100
Nairobi

Principal lawyers

J.K. Mwangi & Co. Advocates
5th Avenue Ngong Road
P O Box 9301 – 00300
Nairobi

Independent auditor

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Certified Public Accountants (K) ,
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I am pleased to present the Bank's Annual Report for the year ended 31st December 2022.

2022 was a challenging year for the financial services industry both at the global and national level. We are however proud of our collective achievements during a year marked by varying challenges. As a bank, we were quick to make the necessary adjustments and maintain a flexible business environment while remaining resilient and focused towards delivering on our strategic goals.

Macroeconomic Overview

The global economy, which at the beginning of the 2022 was continuing on a recovery path from the COVID-19 pandemic, was affected by several significant unexpected shocks in 2022. According to the IMF World Economic Outlook (WEO) July 2022 update, global output growth is expected to slow down to 3.2 percent in 2022 and moderate to 2.9 percent in 2023, down from 6.1 percent in 2021. This represents 0.4 percentage-point downward revision for 2022 compared to the April 2022 WEO, reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support in the advanced and emerging economies.

The global economy was faced with disruptions arising from the conflict in Ukraine, commodity price increases, and the impact of monetary policy tightening in advanced economies. Additionally, the Government measures to stabilize fuel prices, and lower electricity tariffs have moderated the impact of global shocks on domestic prices. Further to this, the General Elections in August 2022 led to a general slowdown in business activities including investments and this had a negative impact on the value of the Kenyan shilling against major global currencies like the Euro and the US dollar. Despite the challenging external environment, Kenya's economic performance rebounded supported by the recovery in the services and industry sectors, following the easing of COVID-19 restrictions.

As the country continues to recover, there is likely to be increased demand for microfinance services, particularly for working capital loans and other forms of business financing.

ADAPT, INNOVATE AND REPOSITION STRATEGY IMPLEMENTATION

The bank is in the second year of implementing the three-year corporate strategy dubbed Adapt, Innovate and Reposition (A.I.R). The strategy continues to focus on the 6 critical success factors: Profitability growth, customer growth, operational efficiency, human capital productivity, effective governance and funding adequacy.

Profitability and Customer Growth

Deposit Mobilization has been a key focus area in an effort to boost the lifeblood of the Bank. Growth of Forex income was also instrumental in contributing directly to our bottom line. We are proud to continue to work with such a wide range of exceptional customers across the country and this year we've had the privilege to engage with most of them through the various engagement forums that were organized. Our Business Units have excelled in developing excellent strategic partnerships that have enabled us to meet our customer expectations.

Operational Efficiency

The Bank is on course to migrate to a new Core Banking System in an aim to upgrade to a newer version to accommodate new technology and business requirements. This year also saw us successfully upgrade our Rafiki Mkononi Mobile Banking App. The Bank is also in the final stages of rolling out the new Kenswitch enabled cards.

Human Capital Productivity

During this phase, the Bank invested heavily on people through the implementation of various initiatives aimed at improving the capacity and performance of our staff. These included the: Culture change initiatives, Job evaluation exercise and the Launch of the new staff loan policy. This year we have seen an improvement in the overall sales culture. There has been a significant shift towards a culture that is dedicated to enhancing customer satisfaction and building strong customer relationships.

Effective Governance

At Rafiki Bank we remain committed to promoting socio-economic prosperity amongst vulnerable communities. In 2022, the Bank conducted various CSR activities to support Kenyan families affected by the current drought and famine situation.

THE WAY FORWARD IN 2023

We are confident that better times lie ahead. As we continue to invest in technology and innovation to support our customers, we believe that there will be a corresponding growth in revenue and reach, as detailed in our strategic plan. We are committed anew to meeting our targets, driving digital innovation, and providing excellent customer experience. People will always remain the most crucial asset in any organization; therefore, I wish to acknowledge and thank all our employees for the collective effort, commitment, and dedication that they have displayed in times of uncertainty.

In 2023, we continue to focus on implementation of the Transformation Plan which is anchored on 5 core areas:
1. Aggressive Debt Recovery Strategies
2. Performance Management that optimizes staff productivity levels.
3. A Bank's Structure that supports our strategy.
4. Digitization through introduction of virtual/digital products and process improvements.
5. Leadership support.

I would like to end by thanking my fellow Board members for their contributions, team spirit, and directions during the year. I thank the management team and our employees for the execution of our strategic goals, and a special appreciation to our customers and shareholders for their unwavering trust in the Bank's Board and management team, and the support of our vision.

for **Daniel Mavindu**
Chairman

28th March **2023**

The Directors submit their report and the audited financial statements for the year ended 31 December 2022, which show the state of the group's affairs.

1 Incorporation

Rafiki Microfinance Bank Limited is domiciled and incorporated in Kenya under the Kenya Companies Act, 2015. The holding company is Chase Bank (K) Limited (IR), which is domiciled and incorporated in Kenya. The current board of directors is as shown on page 1. In accordance with the bank's Articles of Association, no director is due for retirement by rotation.

2 Principal activity

The principal activity of the company is to provide microfinance services in Kenya. Rafiki Assurance and Rafiki Homes are wholly owned subsidiaries of Rafiki Microfinance Bank Limited. The principal activity of Rafiki Assurance, is general insurance, while the principal activity of Rafiki Homes is real estate.

3 Results for the year

	2022 Kshs'000'	2021 Kshs'000'
Net loss before tax	(285,267)	(145,852)
Taxation	(1,820)	(3,029)
Net loss after tax transferred to reserves	(287,087)	(148,881)

4 Business review

Operating environment

There was optimism at the beginning of the year following full reopening of the economy after it was seen to have recovered from the effects of the COVID pandemic. However, the recovery was disrupted by the war in Ukraine which negatively impacted on the global supply chain leading to inflationary pressures and a volatile exchange rate movements. As we progressed in the year, the 2022 elections and the persistent drought just worsened the situation. Overall inflation rose from 5.73% in 2021 to 9.06% in 2022 mainly due to food and fuel prices. The Kenya shilling depreciated in the year to close at 123.45 per dollar unit from 113.25 at the start of the year. The monetary policy interventions helped to check inflation pressures through the raising of the Central Bank Rate from 7% to 8.75%.

Financial Performance

This bank's performance for the year 2022 was thus significantly lower than the previous year impacted by the ensuing business environment.
The bank reported a financial loss of Kshs 314 million as at 31st December 2022 compared to Kshs 152 million in the previous year.
The following are the highlights of the financial performance of the Bank;
• Customer deposits rose to a high of Kshs 3.742 billion before receding in the last two months of the year to close at Kshs 3.323 billion compared to the previous year Kshs 3.335 billion. The drop was occasioned by customer preference to invest in Government Securities which offered very attractive yields.
• New loans disbursed in the year grew by Kshs 450 million to Kshs 1.4 billion. However, Loans and advances dropped to Kshs 3.473 billion from Kshs 3.483 billion reported in the previous year occasioned by write off of loans amounting to Kshs. 861 Million in the year. The write off saw our portfolio at risk drop from 62% reported in 2021 to 52% as at close of the year.

4 Business review (Continued)

Financial Performance (continued)

• Net interest income therefore declined by Kshs 25 million compared to the previous year as a result of a drop in the earning book and aggressive negotiations from our customers on interest rates.
• Non-funded income dropped by Kshs 46 million year on year occasioned by a drop in trade finance business. The trade finance business was affected by the slowdown in the economy and the effects of the 2022 elections.
• Operating expenses increased by 2% year on year to total at Kshs 779 million. Staff costs increase by 4% as the Bank undertook to fill in key positions which fell vacant. Operating expenses increase by 8% as the business activity increased in the year while cost of insurance and overheads went up. Depreciation expenses on assets and right of use assets dropped by 12% driven by assets which were fully depreciated in the year and lease agreements that were renewed at better terms.
• Impairment provisions on loans and advances increased by Kshs 54 million to cater for additional provisions on the new book and shortfalls after realization of securities.

Outlook

The management takes cognizance of the challenges inhibiting the performance of the Bank and has formulated measures to counter these challenges which their realization will yield results;
• Additional capital of Kshs 750 million through conversion of debt in form of balances due to Chase Bank (in liquidation) to equity. This will ensure compliance with the statutory requirements set by the Central Bank of Kenya.
• Improve on people productivity through enhancing a sales culture.
• Implement responsive business channels and digitization of products to remain competitive.
• Continue to restructure the loan book by resourcing the Debt Recovery function with the right skills and competencies.
• Continious product review and repackaging of key products to drive deposits moblization.
• Debt Funding to support business and its sustainability.

5 Dividends

The Directors do not recommend the payment of dividends in respect of the year ended 31 December 2022(2021: nil).

6 Financial statements

At the date of this report, the directors were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

7 Directors

The Directors who held office during the year and to the date are listed on page 1.

Going Concern

The bank's performance for the year 2022 was significantly lower than the previous year. The losses for the financial year 2022 increased by 106% to Kshs 314,210,000 (2021: Kshs 152,718,000). The accumulated losses for the bank closed at Kshs 2,706,655,000. These losses have accumulated from April 2016 when the parent (Chase Bank) was placed under receivership.
The performance for the year 2020 and 2021 was also adversely impacted by the negative effects of the COVID – 19 pandemic which was characterised by unprecedented local and global economic disruptions.

7 Directors (continued)

Going Concern (continued)

The performance for 2022 comes against a backdrop of global supply chain disruptions arising from the Russia-Ukraine war. This has led to world inflationary pressures which forced central banks in the developed economies to raise interest rates. What followed was capital flight from emerging and frontier markets like Kenya with a globally strengthening dollar devaluing the returns from these smaller markets.

The cause and effect of these activities have contributed to the declining performance of the industry characterized by the increase in non-performing loans (NPLs). The Bank losses have resulted to erosion of capital leading to a deterioration of the regulatory capital ratios as at 31st December 2022 to below the required minimum by the Central Bank of Kenya. Core capital to risk weighted assets closed at 8.2% (2021: 15.8%) against a minimum of 10% and total capital to risk weighted assets closed at 9.4% (2021: 17.5%) against a minimum of 12%.

Despite these challenges, the Bank has shown resilience and put strategies in place to turnaround its performance through the implementation of its three year transformational strategic plan for 2022 – 2024. The key pillars of this strategy are aggressive debt recovery to improve asset quality and overall PAR, Leveraging on digitization and strategic partnerships to grow customers numbers, non funded income and improve operational efficiency.

The bank has also initiated the process of onboarding a strategic investor to inject additional capital and also act as the anchor shareholder. To successfully faciltate this process the bank has appointed a team of Transactions Advisors with NCBA Capital as the Lead Transaction Advisor.

In the meantime, the Board and management has approached Kenya Deposit Insurance Corporation (KDIC), the statutory shareholder on account of the parent company, Chase Bank in liquidation, to approve the conversion of Kshs 750 million of the balances due to Chase Bank (IL) to equity. This additional capital will ensure the Bank remains compliant with the prudential capital ratios and support implementation of the strategy as it awaits the conclusion of the strategic investor.

The financial statements, thus, have been prepared on a going concern basis which assumes the Bank will continue in operational existence for the foreseeable future. The basis of preparation presumes the Bank will realize its assets and discharge its liabilities in the ordinary course of business.

8 Statement as to disclosure to the company auditor

Each of the persons, who was a director at the time the report was approved confirms that:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware;

(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information to establish that the company's auditor is aware of that information.

9 Auditor

During the year, Mazars LLP, Certified Public Accountants (K) was appointed as the company's auditor and has expressed willingness to continue in office in accordance with Section 717 (1) of the Companies Act No 17 of 2015.

By Order of the Board

J. K. MWANGI
ADVOCATE
CERTIFIED PUBLIC SECRETARY
P. O. Box 9301 - 00300, NAIROBI.
CPS No. 889

Secretary

29th March 2023

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Group's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed a Board Risk Committee which has the responsibility to monitor the overall risk process within the Group. The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports.

The Risk Department within the Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits across the Group. The department also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a daily basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Risk measurement and reporting systems

The Group's policy is that risk management processes throughout the Group are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

The Group's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board Risk Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

Rafiki Microfinance Bank Limited received its Deposit Taking License from the Central Bank of Kenya on 14 June 2011. The board of directors of the institution is responsible for ensuring that the institution complies with the Laws of Kenya and the guidelines issued by the Central Bank of Kenya. The Board comprises two shareholder representatives and one independent director.

Board Responsibilities

The board of directors of Rafiki Microfinance Bank Limited is responsible for ensuring that the Group complies with the laws of Kenya, the highest standards of corporate governance and universally accepted business ethics. The board has developed, adopted and benchmarked a framework of internationally recognized principles of good corporate governance, which it endeavours to adhere to in the pursuit and maintenance of the highest possible standards. There are 3 main board committees (members of whom are shown on page 1) as follows;

1) **The audit committee**
2) **The risk management committee**
3) **The credit committee**

The roles and responsibilities of audit committee

The audit committee assists the board in raising the standards of corporate governance and internal controls in the following areas:-

(a) Ensuring that financial and operational information is prepared in a timely and accurate manner;
(b) Improving the quality of financial record keeping and reporting;
(c) Strengthening the effectiveness of internal and external audit functions;
(d) Strengthening the internal control environment and risk management;
(e) Enhancing public confidence in the credibility and stability of the institution;
(f) Monitoring incidences of non-compliance with the Microfinance Act and regulations issued there under as well as any other relevant legislations and regulations, and advising the board on the best solutions; and,
(g) Monitoring the ethical conduct of the institution and developing the code of conduct and ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints.

The roles and responsibilities of risk management committee

(a) The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems.
(b) The committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the board.
(c) In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of the Central Bank of Kenya.
(d) It also ensures that there is full compliance with the Microfinance Act and regulations issued there under as well as any other relevant legislations and regulations.

The roles and responsibilities of credit committee

(a) Reviews and oversees the overall lending policy, including monitoring and risk management tools.
(b) It ensures that there are effective procedures and adequate resources to identify and mitigate credit risk and monitors and evaluates all issues that may materially impact on the present and future quality of the loan portfolio and credit risk management.

Single borrower limit

As a result of the losses in the current year, some loans that were previously compliant now exceed 5% of the core capital. Management is working with the customers to bring these accounts into compliance. Rafiki Microfinance Bank Limited has well-defined credit policies and procedures covering the maximum lending limits and approval levels, rate to be charged, repayment period, loan tracking and collateral. The institution did not grant a microfinance loan to any single end user or his associate that exceeded 2% of its core capital and the aggregate amount of microfinance loans was 63% of the institution's loan portfolio. Where there is a credit facility of more than 2% of the core capital, hereby referred to as a large exposure, such credit facility shall in aggregate not exceed 30% of the institution's total loan portfolio. In the current year the large exposure was 37%. Where a credit facility is non-performing, the outstanding balance will be net of provisions for purposes of determining the single borrower exposure limit. Rafiki Microfinance Bank Limited submits to the Central Bank of Kenya a return on single borrower limits on a quarterly basis.

Know your client (KYC) requirements

The board of directors ensures that management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records for a minimum of seven years regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

Board meetings

The board meetings are pre-planned and are held at least quarterly or as necessary. All members are expected to attend the meetings and apologies are only accepted in very special circumstances. In the year under review, four board meetings were held by circulation. Attendances at these meetings were as follows:

	Board meetings Number of meetings attended (Maximum possible)
Daniel Mavindu	17(17)
Aggrey Jonathan K. Bett	29(29)
Stephen Mugwe Thuo	29(29)
Joseph Njuguna	19(19)

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group.

Business transactions with all parties, directors or their related parties are carried out at arm's length. In 2022, the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the group may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the group, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 19.

Board performance evaluation

The board assesses its own performance and that of the management in the discharge of their duties and responsibilities and develops and submits to the Central Bank of Kenya an annual self-assessment board evaluation, not later than three months after the end of each financial year.

f
Daniel Mavindu
Chairperson

25th March **2023**

Rafiki Microfinance Bank Limited and Subsidiaries
Statement of director's responsibilities
For the year ended 31 December 2022

The Kenyan Companies Act No 17 of 2015 and the Microfinance Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. The two Acts of parliament require the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act No 17 of 2015.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on 28th March **2023** and signed on its behalf by:

Name : JOSEPH NJUGUNA
Date : 28th March 2023

Name : AGGREY JONATHAN K. BETT
Date : 28th March 2023

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited

Opinion

We have audited the accompanying financial statements of Rafiki Microfinance Bank Limited and Subsidiaries (the group), set out on pages 23 to 78, which comprise the statement of financial position as at 31 December 2022, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Our audit approach

Summary

The judgements that have the most effect on the nature, extent and timing of our audit procedures - materiality, scoping and the key areas of audit focus - are summarized here and explained in detail below.

Materiality

We have used our professional judgment to determine the materiality for the financial statements as a whole. The materiality was based on total revenue as the Microfinance Bank is a financial institution whose going concern is based on interest income generated from loans advanced to customers. We have also taken into account misstatements which may arise due to fraud or error. The use of this measure has a direct relationship to profit and therefore mitigates the effects of volatility and aligns our audit with the measures that management use to focus on the underlying performance and position of the Group.

Scoping

The scope of our audit was influenced by our professional judgement on the Group risk assessment, the assessment of the risks are mainly posed by non-compliance with the Micro finance Act, 2006 and Microfinance regulations of 2008. We focused more on the higher risk areas, with less intensive coverage of medium and low risk areas with reliance to the effectiveness of systems and procedures.

Areas of focus

The areas of focus for our audit to which we allocated the greatest amount of our resources and effort were:

- Loan impairment provisions
- IT systems and controls on financial reporting
- Know your customers policy and Group procedures
- Interest income; and
- Deferred tax assets

i) Loan impairment provisions.

We focused on this area because the directors make judgements and estimates both in timing of recognition of provisions for impairment and other regulatory matters and the estimate of the quantum of any such amounts.

In the Microfinance Bank the material portion of impairment is individually calculated on a graduated scale as guided by the regulator, Central Bank of Kenya. The impairment is basically on a modelled basis over the aged analysis of loans, advances and overdrawn accounts. Performance of individual customer loans are continuously monitored through historical delinquency statistics. The assessment establishes the need for any additional impairment allowance and management awareness on the Group products.

Our response

In our testing of the impairment of loans we assessed the reasonability of management judgements and assumptions in computation of loan loss provisions.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

i) Loan impairment provisions (Continued)

We also engaged our internal specialist to assist with;

- Evaluate whether the impairment model used for loan loss provision for specific identified accounts complies with the requirements of IFRS 9.
- Analyzing the future projected cash flows to determine whether they are reasonable and supportable given the current macroeconomic climate.

  We found that the assumptions used by management were reasonable and comparable with historical and expected performance of the Group. We considered the disclosure of loan impairment loss to be appropriate and adequate. We further assessed as appropriate the classifications of the Group's loans and advances are in accordance with the requirements of CBK.

Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data and assumptions used. Our work included the following:

- We compared the principal assumptions made with our own knowledge of other practices and actual experience;
- We tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models or building our own models independently and comparing the results;
- We considered the potential for impairment to be affected by events which were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate; and
- We increased the extent of our sample of loans to staff and related parties whose interests was sensitive to operations of the Group. We found no material exceptions in these tests.

ii) IT systems and controls on financial reporting

We focused on this area because the Company's financial accounting and reporting systems are heavily dependent on IT systems and we purposed to establish the reliability of the IT system.

Our response

We involved our IT auditor who assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems and databases that are relevant to financial reporting. We examined the framework of governance over the Company's IT organization and the controls over program development and changes, access to programs, data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Company's IT systems including access management and segregation of duties.

The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the operation of the Company's IT systems for the purposes of our audit.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

iii) Know Your Customer (KYC) procedures for both loan and customer deposits

We focused on this area because KYC policy is an indispensable part of banking operation, whether it's about account opening or advancement of loans because of the inherent risk to the financial institutions, all the banks are required by the regulator to obtain information about their customers' identity and address, which are heavily dependent on the KYC policies and procedures operating effectively.

Our response

We assessed and tested the design and operating effectiveness of the KYC and in our exercise we considered the following aspects;

- Customer acceptance policy - This was to ensure that explicit guidelines are in place for acceptance of customers.

- Customer identification procedures - To identify the customer and verify his/her identity by using reliable, independent source documents, data or information.

- Regular monitoring of transactions - We held discussions with management to understand as well as observe the normal and reasonable activity of the customer in order to identify transactions that fall outside any regular pattern of activity.

The Board ensures that management obtains and maintains proper identification of customers wishing to open accounts or make transactions or enter into an engagement with the institution whether directly or indirectly through proxy; and maintains adequate and accurate records regarding its customers, sources of funds and transactions, as required by the Microfinance Act 2006.

iv) Interest income

We focused on the interest income to ensure amounts recognized in the year is dependent on the accurate computation of interest income by banking transaction processing system and the correct and complete input of the parameters of various contractual instruments into the transaction processing system.

Our response

We reviewed the disclosures relating to interest income ensuring they are included in notes to the financial statements and the Effective Interest Rate calculation are appropriately accounted for in accordance with IFRS 7.

- Through the use of analytical review procedures, we analysed the interest income to pinpoint the risk to the most appropriate assertion(s).

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

iv) Interest income (Continued)

Our response (Continued)

- Through use of data analytics, we disaggregated interest income into classes of interest including interest released from suspense accounts. Controls around suspending of interest on non-performing loans and releases of interest held in suspense accounts were assessed. The basis of any releases of interest in suspense were assessed to determine whether they had been supported adequately.

- We engaged internal specialists (Risk Advisory - (IT) team to assist with testing the computational logics and related system controls of the underlying transaction processing system for interest income. We assessed the design, implementation and operating effectiveness of the controls regarding data input into transaction processing system and validation thereof that addressed the risk.

- Our risk advisory team spooled all non-standard journals in interest income general ledger lines for further testing and assessed their underlying business rationale as part of our testing around journal entries. Controls around posting of journal entries into revenue lines were assessed.

We found controls around input of various contractual instruments into the transaction processing system operating effectively. The computational logics of the transaction processing system were found correct and accurate. Also there was effective control around release of interest held in suspense.

v) Deferred tax assets

The recognition of deferred tax assets relies on the significant application of judgement by the directors in respect of assessing the probability that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The company has accumulated significant losses over the years and it would appear that not all losses may be recoverable in the near future. Recognising the deffered tax would significantly increase the assets and improve the net equity position of the company.

We reviewed the deffered provision made by management to determine whether consideration as to the uncertainity in recovery of total tax losses had been made.

Our response

Our audit procedures included the assessment of controls over the recognition and measurement of deferred tax assets and the assessment of assumptions used in projecting the Company's future taxable profits.

We compared key inputs used by the Company's to forecast future profits to externally available data such as economic forecasts and the Company's own historical data and performance and assessed the sensitivity of the outcomes to reasonably possible changes in assumptions. We also used our own tax specialists to critically assess the appropriateness of the future tax planning strategies.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Responsibilities of management and directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Micro Finance Act, Regulations and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements,the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable,matters related to going concern and using the going concern basis of accounting unless directors either intends to liquidate the Group or to cease operations,or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Report of the Independent Auditor to the Members of Rafiki Microfinance Bank Limited (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of the audit;

ii) In our opinion proper books of accounts have been kept by the Company, so far as appears from our examination of those books; and

iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Alphonse Karungu Practicing Certificate No. 856

29 March 2023

For and on behalf of Mazars LLP
Certified Public Accountants
Nairobi

Consolidated Statement of comprehensive income

	Note	2022 Kshs'000'	2021 Kshs'000'
Interest income	7	744,782	757,354
Interest expense	8	(267,361)	(254,347)
Net interest income		477,421	503,007
Net fees and commission income	9	93,459	133,830
Other operating income	10	7,160	14,139
Operating income		578,040	650,976
Expenses			
Impairment losses	18	61,055	5,574
Other operating expenses	11	248,117	248,684
Staff costs	12	401,856	368,989
Depreciation	13	149,612	170,675
Amortization of intangible assets	23	2,667	2,906
		863,307	796,828
Loss before tax		(285,267)	(145,852)
Income tax credit	14	(1,820)	(3,029)
Loss for the year		(287,087)	(148,881)
Other Comprehensive income, net of taxes		(24,933)	(2,784)
Total comprehensive loss		(312,020)	(151,665)
Loss per share (basic and diluted)	32	(104)	(51)

Bank Statement of comprehensive income

	Note	2022 Kshs'000'	2021
Interest income	7	742,991	757,186
Interest expense	8	(268,186)	(256,390)
Net interest income		474,805	500,796
Net fees and commission income	9	68,144	108,088
Other operating income	10	7,160	14,139
Operating income		550,109	623,023
Expenses			
Impairment losses	18	60,207	5,574
Other operating expenses	11	244,481	240,488
Staff costs	12	383,087	353,871
Depreciation	13	149,465	170,468
Amortization of intangible assets	23	2,232	2,471
		839,472	772,872
Loss before tax		(289,363)	(149,849)
Income tax credit	14	-	-
Loss for the year		(289,363)	(149,849)
Other Comprehensive income, net of taxes		(24,848)	(2,869)
Total comprehensive loss		(314,211)	(152,718)
Loss per share (basic and diluted)	32	(105)	(51)

Consolidated Statement of financial position as at 31 December 2022

	Note	2022 Kshs'000'	2021 Kshs'000'
Assets			
Cash and balances with Central bank	15	157,374	146,871
Deposits and balances with financial Institutions	15	806,869	1,074,153
Investment in Government Securities	16	391,291	621,913
Loans and advances to customers	17	3,473,103	3,483,871
Due from related companies	19	16,549	15,080
Other assets	20	156,805	144,722
Tax recoverable	14	79,507	66,235
Deferred tax asset	24	926	1,212
Property and equipment	21	107,773	164,446
Right-of-use-asset	22	149,022	199,565
Intangible assets	23	6,026	5,789
		5,345,245	5,923,857
Liabilities and equity			
Capital resources			
Share capital	25	3,000,000	3,000,000
Accumulated losses		(2,662,075)	(2,381,641)
Fair value reserve		(31,636)	(6,703)
Statutory reserve		50,700	57,353
Total Equity		356,989	669,009
Liabilities			
Deposits due financial institutions	19	250,759	276,534
Customers deposits	26	3,297,687	3,305,566
Borrowings	27	274,112	399,754
Due to related companies	19	882,405	892,473
Other liabilities	28	110,102	165,806
Lease liabilities	29	173,191	214,715
		4,988,256	5,254,848
		5,345,245	5,923,857

The financial statements on pages 23 to 78 were approved for issue by the board of directors on

28th March 2023 and were signed on its behalf by:

Name : JOSEPH NJUGUNA

Date : 28th March 2023

Name : AGGREY JONATHAN K. BETT

Date : 28th March 2023

Bank Statement of financial position as at 31 December 2022

	Note	2022 Kshs'000'	2021 Kshs'000'
Assets			
Cash and balances with Central bank	15	157,374	146,871
Deposits and balances with financial Institutions	15	806,869	1,074,153
Investment in Government Securities	16	379,707	611,538
Loans and advances to customers	17	3,473,103	3,483,871
Due from related companies	19	26,924	13,357
Investment in associate companies	16	15,000	-
Other assets	20	146,612	125,789
Tax recoverable	14	79,904	66,235
Property and equipment	21	107,706	164,322
Right-of-use-asset	22	149,022	199,565
Intangible assets	23	4,213	3,541
		5,346,434	5,889,242
Liabilities and equity			
Capital resources			
Share capital	25	3,000,000	3,000,000
Accumulated losses		(2,668,367)	(2,385,657)
Fair value reserve		(31,636)	(6,788)
Statutory reserve		50,700	57,353
Total Equity		350,697	664,908
Liabilities			
Deposits due financial institutions	19	250,759	276,534
Customers deposits	26	3,323,656	3,335,785
Borrowings	27	274,112	399,754
Due to related companies	19	882,405	860,282
Other liabilities	28	91,614	137,264
Lease liabilities	29	173,191	214,715
		4,995,737	5,224,334
		5,346,434	5,889,242

The financial statements on pages 23 to 78 were approved for issue by the board of directors on 28th March 2023 and were signed on its behalf by:

Name : JOSEPH NJUGUNA
Date : 28th March 2023

Name : AGGREY JONATHAN K. BETT
Date : 28th March 2023

Consolidated Statement of changes in equity

	Share capital Kshs'000	Accumulated losses Kshs'000	Fair Value reserves Kshs'000	Statutory reserve Kshs'000	Total Kshs'000
Year ended 31 December 2021					
As at 1 January 2021	2,500,000	(2,228,458)	(3,919)	53,051	320,674
Injection of new capital	500,000	-	-	-	500,000
Loss for the year	-	(148,881)	-	-	(148,881)
Other comprehensive loss for the year	-	-	(2,784)		(2,784)
Transfer to statutory reserve	-	(4,302)	-	4,302	-
At 31 December 2021	3,000,000	(2,381,641)	(6,703)	57,353	669,009
Year ended 31 December 2022					
As at 1 January 2022	3,000,000	(2,381,641)	(6,703)	57,353	669,009
Injection of new capital	-		-	-	-
Loss for the year	-	(287,087)	-	-	(287,087)
Other comprehensive loss for the year	-	-	(24,933)	-	(24,933)
Transfer from statutory reserve	-	6,653	-	(6,653)	-
At 31 December 2022	3,000,000	(2,662,075)	(31,636)	50,700	356,989

Bank Statement of changes in equity

	Share capital Kshs'000	Accumulated losses Kshs'000	Fair Value reserves Kshs'000	Statutory reserve Kshs'000	Total Kshs'000
Year ended 31 December 2021					
As at 1 January 2021	2,500,000	(2,231,506)	(3,919)	53,051	317,626
					-
Injection of new capital	500,000	-	-	-	500,000
					-
Loss for the year	-	(149,849)	-	-	(149,849)
Other comprehensive loss for the year	-	-	(2,869)	-	(2,869)
Transfer to statutory reserve	-	(4,302)	-	4,302	-
At 31 December 2021	3,000,000	(2,385,657)	(6,788)	57,353	664,908
Year ended 31 December 2022					
As at 1 January 2022	3,000,000	(2,385,657)	(6,788)	57,353	664,908
Loss for the year	-	(289,363)	-	-	(289,363)
Other comprehensive loss for the year	-	-	(24,848)	-	(24,848)
Transfer from statutory reserve	-	6,653	-	(6,653)	-
At 31 December 2022	3,000,000	(2,668,367)	(31,636)	50,700	350,697

Group Statement of cash flows	Note	2022 Kshs'000'	2021 Kshs'000'
Net cash used in operations	30	(256,738)	582,943
Taxation paid	14	(14,405)	(12,774)
Net cash flows used in operating activities		(271,143)	570,169
Cash flows from investing activities			
Investment in Government securities	16	205,774	(311,827)
Proceeds from sale of property and equipment	21	5,647	4,210
Purchase of intangible assets	23	(2,904)	-
Purchase of property and equipment	21	(34,763)	(30,306)
Net cash used in investing activities		173,754	(337,923)
Cash flows from financing activities			
Loan receipt		-	51,708
Loan repayment		(151,515)	(102,666)
Interest paid		(38,601)	(45,639)
Net cash generated from/(used in) financing activities		(190,116)	(96,597)
Decrease in cash and cash equivalents		(287,505)	135,649
Effects of foreign exchange differences		20,222	13,093
At start of year		1,074,153	925,411
At end of year	15	806,870	1,074,153

Bank Statement of cash flows

	Note	2022 Kshs'000'	2021 Kshs'000'
Net cash used in operations	30	(259,259)	582,943
Taxation paid	14	(13,669)	(12,774)
Net cash flows used in operating activities		(272,928)	570,169
Cash flows from investing activities			
Investment in Government securities	16	206,983	(311,827)
Proceeds from sale of property and equipment	21	5,826	4,210
Purchase of intangible assets	23	(2,904)	-
Purchase of property and equipment	21	(34,852)	(30,306)
Net cash used in investing activities		175,053	(337,923)
Cash flows from financing activities			
Loan receipt		-	51,708
Loan repayment		(151,030)	(102,666)
Interest paid		(38,601)	(45,639)
Net cash generated from/(used in) financing activities		(189,631)	(96,597)
Decrease in cash and cash equivalents		(287,506)	135,649
Effects of foreign exchange differences		20,222	13,093
At start of year		1,074,153	925,411
At end of year	15	806,869	1,074,153

1 Corporate information

The Bank provides Micro, Retail and SME Banking services in Kenya. It is incorporated in under the Kenyan Companies Act, 2015, as a Public Limited Liability Company and is domiciled in Kenya.

2 Basis of preparation and other significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the effect of the new and amended IFRS and IFRIC interpretations in note 3.1 below.

2.1 Basis of preparation

a) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis of accounting.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the IASB, and the requirements of the Kenyan Companies Act, 2015.
For the purpose of reporting under the Kenyan Companies Act, 2015, the balance sheet in the financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

c) Presentation of financial statements

The Group presents the consolidated statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of profit or loss and other comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

d) Functional and presentation currency

The consolidated financial statements are presented in Kenya Shillings, which is the Group's functional currency, and all amounts have been rounded off to the nearest thousand (KShs'000), unless otherwise stated.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

2 Basis of preparation and other significant accounting policies (continued)

e) Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The financial statements of the subsidiaries have been excluded from the consolidation since their inclusion is not material for the purpose of providing a true and fair view of the state of financial affairs of the group as at 31 December 2022.

3 Summary of significant accounting policies and disclosures

3.1 New and revised standards

i) *Adoption of new and revised standards*

Three Amendments to standards became effective for the first time in the financial year beginning 1st January 2022 and have been adopted by the Company. None of the Amendments has had an effect on the Company's financial statements.

ii) New and revised standards that have been issued but are not yet effective

The Group has not applied any of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1st January 2022, and the Directors do not plan to apply any of them until they become effective. Below is the list of all such new or revised standards and interpretations, with their effective dates, none of which is expected to have a significant impact on the Bank's financial statements in the period of initial application.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2023, clarify a criterion in IAS1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

3 Summary of significant accounting policies and disclosures (continued)

3.1 New and revised standards (continued)

ii) New and revised standards that have been issued but are not yet effective (continued)

Amendments to IAS 8 titled Definition of Accounting Estimates (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)

The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)

The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.

Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)

The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The company plans to apply the changes above from their effective dates.

3 Summary of significant accounting policies and disclosures (continued)

3.1 New and revised standards (continued)

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The company plans to apply the changes above from their effective dates.

3.2 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

3.3 Financial instruments

3.3.1 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset of financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit- adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

3 Summary of significant accounting policies and disclosures (continued)

3.3 Financial instruments

3.3.1 Financial assets and liabilities (continued)

Measurement methods (continued)

Amortised cost and effective interest rate (continued)

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the profit or loss account.

Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:
(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit- adjusted effective interest rate is applied to the amortised cost of the financial asset; and
(b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Bank commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:
(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

From January 2018, the Group has applied IFRS 9 and classified its financial assets in the following measurement categories:

- *Fair value through profit or loss (FVPL)*
- *Fair value through other comprehensive income (FVOCI)*
- *Amortised cost*

3.3 Financial instruments (Continued)

3.3.1 Financial assets and liabilities (Continued)

Financial assets (continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:
(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income" using the effective interest rate method.

Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Group as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

3.3 Financial instruments (Continued)

3.3.1 Financial assets and liabilities (Continued)

Financial assets (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Groups's right to receive payment is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Equity Instruments

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

3.3.1 Financial assets and liabilities (Continued)

Financial assets (Continued)

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

(iii) Modification of loans

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

3.3.1 Financial assets and liabilities (Continued)

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with Groups and other short-term highly liquid investments with original maturities of three months or less. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3.5 Property and equipment

All equipment used by the Group is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation of assets is calculated using the reducing balance method to reduce their cost to their residual values over their estimated useful lives, as follows:

	Rate
Computers and equipment	33.30%
Motor vehicles	25.00%
Office equipment	12.50%
Furniture and fittings	12.50%
Automated teller machines	12.50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

3.6 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Amortisation is calculated on a straight line basis over the estimated useful lives at an annual rate of 25%.

3.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Employee benefits

The Group contributes to the statutory National Social Security Fund. This is a defined contribution scheme to which the company's obligation is limited to a specified contribution per employee per month. Currently, the company's contribution is limited to a maximum of Kshs 1,080 per employee per month and is charged to the profit or loss in the year to which it relates.

3.9 Provisions for liabilities

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.10 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

3.11 Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3.11 Income tax (continued)

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.12 Leases

Leases under which the Company is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used.

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

3.12 Leases (continued)

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1st January 2020.

Leases under which the Company is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The Company has not entered into any finance leases.

3.13 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

4 Critical accounting estimates in applying the entity accounting policies

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The directors also need to exercise judgment in applying the Group's accounting policies.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;

4 Critical accounting estimates in applying the entity accounting policies (Continued)

(a) Measurement of the expected credit loss allowance

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing Groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

(b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

5 Financial risk management

The group has exposure to the following risks from its use of financial instruments:this are credit risk, liquidity risk and market risk.

a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure. The Risk Management Committee manages and oversees the overall lending policy of the bank. Measures to minimize credit risk include the following among others;

i) Establishing the authorization structure for the approval and renewal of credit facilities.

ii) Establishment of IT controls to avoid unauthorized lending and to generate exception reports on new advance accounts.

iii) Placing limits on the amounts of risk accepted in relation to one borrowers, or group of borrower, and to industry segments.

iv) Regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

v) Regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

vi) Obtaining collateral and corporate/personal guarantees.

vii) Reviewing compliance with agreed exposure limits. Regular reports are provided to the Risk Committee on the credit quality of portfolios and appropriate corrective action is taken.

(i) Management of credit risk

Concentrations of assets and off balance sheet items:

Details of significant concentrations of the company's financial assets by industry groups are as detailed below:

5 Financial risk management (Continued)

a) Credit risk (Continued)

Group and Bank
loans and advances to customers

	2022 Kshs'000	%	2021 Kshs'000	%
Agriculture	61,697	1.78%	122,862	3.53%
Manufacturing	86,054	2.48%	325,993	9.36%
Building and construction	559,320	16.13%	949,406	27.25%
Electricity and water	5,184	0.15%	-	0.00%
Trade	915,804	26.41%	1,357,023	38.95%
Tourism, restaurant and hotels	75,737	2.18%	88,021	2.53%
Transport & communication business	491,058	14.16%	146,896	4.22%
Real estate & home improvement	848,700	24.47%	200,618	5.76%
Financial services	49,047	1.41%	197,474	5.67%
Personal/household consumer loans	349,975	10.09%	95,560	2.74%
Mining and quarrying	25,379	0.73%	19	0.00%
	3,467,955	100%	3,483,871	100%

(ii) Maximum exposure to credit risk before collateral held

Group

On balance sheet tems:	2022 Kshs'000	%	2021 Kshs'000	%
Cash reserve ratio with Central Bank of Kenya	157,374	3.44%	146,871	3.06%
Cash and balances with banks	167,545	3.67%	186,652	3.89%
Short term deposits with banks	651,763	14.26%	896,528	18.66%
Loans to customers	3,467,955	75.87%	3,483,871	72.53%
Other assets	109,193	2.39%	97,586	2.03%
Due from related companies	16,549	0.36%	15,080	0.31%
	4,570,379	100%	4,826,588	100%

Off balance sheet items

	2022	2021
Letter of guarantee and performance bonds	2,349,051	2,682,506

Bank

On balance sheet tems:	2022 Kshs'000	%	2021 Kshs'000	%
Cash reserve ratio with Central Bank of Kenya	157,374	3.44%	146,871	3.06%
Cash and balances with banks	167,545	3.67%	186,652	3.89%
Short term deposits with banks	651,763	14.26%	896,528	18.66%
Loans to customers	3,467,955	75.87%	3,483,871	72.53%
Other assets	99,535	2.18%	76,328	1.59%
Due from related companies	26,924	0.59%	13,357	0.28%
	4,571,096	100%	4,803,607	100%

Off balance sheet items

	2022	2021
Letter of guarantee and performance bonds	2,349,051	2,682,506

5 Financial risk management (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances to customers

Group	2022 Kshs'000'	2021 Kshs'000'
Neither past due nor impaired	1,721,992	1,564,772
Past due but not impaired	277,046	439,566
Impaired	2,161,673	3,262,165
Gross	4,160,711	5,266,503
Less: allowances for impairment	(687,608)	(1,782,632)
Net	3,473,103	3,483,871

Loans and receivables that are neither past due nor impaired

The company classifies loans and receivables under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with guidelines issued by banking regulators and a provision of 1% is provided in the financial statements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the company.

A collective allowance for impairment of 5% is made to cover losses which have been incurred but have not yet been identified. These exposures are categorised as watch per the microfinance regulations.

Impaired loans

Impaired loans are loans for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These accounts under guidelines issued by company's regulators are termed as non-performing loans. The company establishes a specific allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. These exposures are categorised as classes 3 – 5 per the microfinance regulations.

Allowances for impairment

The company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The company writes off a loan/security balance (and any related allowances for impairment losses) when it determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets based on age:

Group and Bank
Loans to customers

As at 31 December 2022	Gross Kshs'000'	Net Kshs'000'
Neither past due nor impaired	1,721,992	1,703,137
Past due but not impaired	277,046	267,685
Impaired	2,161,673	1,502,281
	4,160,711	3,473,103

5 Financial risk management (Continued)

a) Credit risk (Continued)

Group and Bank

Loans to customers	**Gross Kshs'000'**	**Net Kshs'000'**
As at 31 December 2021		
Neither past due nor impaired	1,564,772	1,558,764
Past due but not impaired	439,566	435,470
Impaired	3,262,165	1,489,637
	5,266,503	3,483,871

Expected Credit Loss measurement

IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality sinceinitial recognition as summarised below:

A financial instrument that is not credit impaired at initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.

If a significant increase in credit risk ("SICR" since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired.

If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the Standard are as follows:

5.1.2.1 Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

For retail portfolio, if the borrower meets one or more of the following criteria:
- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 12 months

For wholesale and treasury portfolios, if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:
- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flows/liquidity problems such as delay in servicing of trade creditors/loans

5 Financial risk management (Continued)

5.1.2.1 Significant increase in credit risk (SICR) (Continued)

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Bank. In relation to wholesale and treasury financial instruments, where a watch list is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2022.

5.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by The lender relating to The borrower's financial difficulty
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

The expected credit loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
LGD represents the Bank's expectations of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is calculated on a 12-month or lifetime basis, where 12 month LGD is the percentage of loss expected to be made if the default occurs over the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

5 Financial risk management (Continued)

5.1.2.3 Measuring expected credit loss – inputs, assumptions and estimation techniques

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and a credit grade. This is supported by a historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

For amortising products or bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayments/refinance assumptions are also incorporated.
For revolving products, the exposure at default is predicted by taking the current drawn-down balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoverable amount post default. These vary by product type:

For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on q quarterly basis.

5.1.2.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Forecasts of the base economic scenario and the possible scenarios along with scenario weightings are prepared by an expert economic team. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible outcomes.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5 Financial risk management (Continued)

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Retail portfolio
(i) *Unemployment rate* , given its impact on secured and unsecured borrowers' ability to meet their contractual repayments; and
(ii) *House price index,* given the significant impact it has on mortgage collateral valuations

Wholesale portfolio
(i) *GDP,* given the significant impact on businesses' performance and collateral valuations
(ii) *Interest rate,* given its impact on businesses' likelihood of default

3.1.2.5 Grouping of instruments for losses measured on a collective basis

For expected credit losses provisions modelled on a collective basis, a Banking of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Bank are homogenous. In performing this grouping, there must be sufficient information for the Bank to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine Bankings are as follows:

Retail – Grouping for collective measurement
- Loan to value ratio band
- Credit rating band
- Product type (e.g. Residential/buy to let mortgage, overdraft, credit card)
- Repayment type
- Utilisation band

Wholesale – groupings for collective measurement
- Industry – external data sourced from study
- Collateral type
- Credit rating band
- Geographical region of risk exposure

The appropriateness of groupings is monitored and reviewed on a periodic basis.

5.1.3.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

o Mortgages over residential properties.
o Charges over business assets such as premises, inventory and accounts receivable.
o Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the period.

The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

5 Financial risk management (Continued)

5.1.3.4 Lending limits

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

5.1.3.5 Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

5.1.3.6 Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.4 Impairment and provisioning policies

The loss allowance recognised in the period is impacted by a variety of factors as follows:

Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL;

- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

5 Financial risk management (Continued)

5.1.5 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year was nil (2018: nil). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

5.1.6 Modifications of financial assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended repayment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

b) Liquidity risk

The company is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. The Risk Committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered. A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the company as a whole.

(ii) Source of funding

The company has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base of customers.

The company also borrows from the finacial instituitions for short term liquidity requirements.

(iii) Exposure to liquidity risk

The key measure used by the company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment in securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The bank regulators require that the bank maintains a liquidity ratio of 20% effect. The company complied with the liquidity requirements during the year. The average liquidity ratio for the year was 35.89%.

The table below represents the cash flows payable by the company under non- derivative financial liabilities by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The company manages the inherent liquidity risk based on expected undiscounted cash inflows

5 Financial risk management (Continued)

b) Liquidity risk (Continued)

Group

	Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	3 months less than year Kshs. '000'	1 year less than 5 year Kshs. '000'	Over 5 years Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	248,042	-	-	-	-	248,042
Deposits with banking institutions	428,660	-	287,541	-	-	716,201
Investment in Government Securities	-	20,155	-	-	371,137	391,292
Loans and advances to customers	1,392,963	43,191	212,437	1,374,551	449,961	3,473,103
Due from related company	16,549	-	-	-	-	16,549
Other Assets	109,193	-	-	-	-	109,193
Total assets (expected) (maturity dates)	2,195,408	63,345	499,978	1,374,551	821,098	4,954,380
Financial Liabilities						
Deposits and balances due to banking institutions	-	3,068	47,691	200,000	-	250,759
Borrowings	123,393	9,350	96,291	45,078	-	274,112
Customer deposits	1,498,312	1,666,142	133,233	-	-	3,297,686
Due to related company	-	-	-	-	-	-
Other Liabilities	110,102	-	-	-	-	110,102
Total liabilities (Contractual) (maturity dates)	1,731,807	1,678,559	277,215	245,078	-	3,932,659
NET LIQUIDITY GAP						
31st December 2022	463,601	(1,615,214)	222,763	1,129,474	821,098	1,021,722
31st December 2021	(2,223,404)	(142,427)	(118,902)	2,548,097	406,602	396,500
2022						
Letters of guarantee and performance bonds	2,084,759	118,578	99,656	46,059	-	2,349,051
2021						
Letters of guarantee and performance bonds	464,870	804,915	1,230,622	182,099	-	2,682,506

5 Financial risk management (Continued)

b) Liquidity risk (Continued)

Bank

	Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	3 months less than year Kshs. '000'	1 year less than 5 year Kshs. '000'	Over 5 years Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	248,042	-	-	-	-	248,042
Deposits with banking institutions	428,660	-	287,541	-	-	716,201
Investment in Government Securities	-	18,571	-	-	361,137	379,708
Loans and advances to customers	1,392,963	43,191	212,437	1,374,551	449,961	3,473,103
Due from related company	26,924	-				26,924
Other Assets	99,535					99,535
Total assets (expected) (maturity dates)	2,196,125	61,761	499,978	1,374,551	811,098	4,943,513
Financial Liabilities						
Deposits and balances due to banking institutions	-	3,068	47,691	200,000	-	250,759
Borrowings	123,393	9,350	96,291	45,078	-	274,112
Customer deposits	1,511,118	1,679,305	133,233	-	-	3,323,655
Due to related company	882,405	-	-	-	-	882,405
Other Liabilities	91,614	-	-	-	-	91,614
Total liabilities (Contractual) (maturity dates)	2,608,530	1,691,722	277,215	245,078	-	4,822,545
NET LIQUIDITY GAP						
31st December 2022	(412,405)	(1,629,961)	222,763	1,129,474	811,098	120,969
31st December 2021	(2,223,404)	(142,427)	(118,902)	2,548,097	406,602	396,500
2022						
Letters of guarantee and performance bonds	2,084,759	118,578	99,656	46,059	-	2,349,051
2021						
Letters of guarantee and performance bonds	464,870	804,915	1,230,622	182,099	-	2,682,506

5 Financial risk management (Continued)

c) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Overall authority for market risk is vested in the Risk Management Committee which is responsible for the development of detailed risk management policies. The policies are subject to review and approval by the board.

Exposure to interest rate risk

The company is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The risk committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes.

The table overleaf summarizes the exposure of interest rate risk at the balance sheet date. The company maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the company's lending rate or the company's rates are adjusted from time to time to reflect the cost of deposits. Interest rates on cash collateral held are determined by the company with the company retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, may fluctuate depending on the movement in the market interest rates. The company also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the company. It is unusual for a company's assets and liabilities to be completely matched due to the nature of business terms and types.

Included in the table overleaf are financial assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

5 Financial risk management (Continued)

c) Market risk (continued)

	Maturing Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	4 Months to 1 year Kshs. '000'	1 year less than 5 year Kshs. '000'	Non interest bearing Kshs. '000'	Total Kshs. '000'
Group						
Financial Assets						
Cash and bank balances	-	-	-	-	248,042	248,042
Deposits with banking institutions	428,660	-	287,541	-	-	716,201
Investment in Government Securities	-	20,155	-	371,137	-	391,292
Loans and advances to customers	1,392,963	43,191	212,437	1,824,512	-	3,473,103
Other assets	-	-	-	-	109,193	109,193
Due from related company	-	-	-	-	16,549	16,549
Total financial assets	1,821,623	63,345	499,978	2,195,650	373,784	4,954,380
Financial Liabilities						
Deposits and balances due to banking institutions	-	3,068	47,691	200,000	-	250,759
Customer deposits	741,346	1,666,142	133,233	-	756,966	3,297,686
Borrowings	123,393	9,350	96,291	45,078	-	274,112
Due to related company	-	-	-	-	-	-
Other liabilities	-	-	-	-	110,102	110,102
Total financial liabilities	864,739	1,678,559	277,215	245,078	867,068	3,932,659
Interest rate - Sensitivity Gap						
2022	956,884	(1,615,214)	222,763	1,950,572	(493,283)	1,021,722
2021	(574,213)	(165,960)	(194,395)	2,671,303	(1,649,191)	87,544

5 Financial risk management (Continued)

c) Market risk (continued)

Bank

	Maturing Less than one month Kshs. '000'	Between 1-3 months Kshs. '000'	4 Months to 1 year Kshs. '000'	1 year less than 5 year Kshs. '000'	Non interest bearing Kshs. '000'	Total Kshs. '000'
Financial Assets						
Cash and bank balances	-	-	-	-	248,042	248,042
Deposits with banking institutions	428,660	-	287,541	-	-	716,201
Investment in Government Securities	-	18,571	-	379,708	-	398,279
Loans and advances to customers	1,392,963	43,191	212,437	1,824,512	-	3,473,103
Other assets	-	-	-	-	99,535	99,535
Due from related company	-	-	-	-	26,924	26,924
Total financial assets	1,821,623	61,761	499,978	2,204,220	374,501	4,962,084
Financial Liabilities						
Deposits and balances due to banking institutions	-	3,068	47,691	200,000	-	250,759
Customer deposits	754,152	1,679,305	133,233	-	756,966	3,323,655
Borrowings	123,393	9,350	96,291	45,078	-	274,112
Due to related company	-	-	-	-	882,405	882,405
Other liabilities	-	-	-	-	91,614	91,614
Total financial liabilities	877,545	1,691,722	277,215	245,078	1,730,985	4,822,545
Interest rate - Sensitivity Gap						
31st December 2022	944,078	(1,629,961)	222,763	1,959,143	(1,356,483)	139,539
31st December 2021	(574,213)	(165,960)	(194,395)	2,671,303	(1,649,191)	87,544

5 Financial risk management (continued)

c) Market risk (continued)

Interest rate risk stress test

The Group measures the impact of risks associated with effects of fluctuations in prevailing interest rates on profit(loss) before tax.

	Group		Bank	
	2022	2021	2022	2021
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
300 basis points increase in interest rates	45,450	52,102	44,881	52,102
300 basis points decrease in interest rates	(45,450)	(52,102)	(44,881)	(52,102)

The model does not take into account any recovery action in response to interest rate movements, particularly in adverse situations.

d) Currency risk

The company operates wholly within Kenya and its assets and liabilities are reported in the local currency. As at the end of the trading period it had no currency risk pertaining to its operations.

6 Capital Risk Management

The Central Bank of Kenya sets and monitors capital requirements for Microfinance Bank Institutions as a whole.

The Microfinance Bank regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 % of tier 1 capital.

There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Microfinance Bank and certain other regulatory items.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The institution's aim is to build a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Microfinance Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

- In implementing current capital requirements, the Central Bank of Kenya requires each Microfinance Bank to maintain;

  A minimum level of regulatory capital of Shs 60 million.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 10% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk weighted assets plus risk-weighted off-statement of financial position items.

6 Capital Risk Management (continued)

The Microfinance Bank is committed to comply with all externally imposed capital requirements.

	Group and Bank	
Tier 1 capital	**2022**	**2021**
	Kshs'000'	**Kshs'000'**
Share capital	3,000,000	3,000,000
Accumulated losses	(2,668,367)	(2,385,657)
	331,633	614,343
Tier 2 capital		
Subordinated debt	-	18,946
Collective impairment allowances	50,700	47,842
	50,700	66,788
Total regulatory capital	382,333	681,131
Total risk-weighted assets	4,063,672	3,827,398
Borrowings		
Gearing		
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets (CBK minimum 12%)	9.4%	17.8%
Total tier 1 capital expressed as a percentage of total Risk weighted assets requirement (CBK Minimum 10%)	8.2%	16.1%
Excess/(Deficiency)		

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Board Credit Committee or ALCO as appropriate. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Microfinance Bank Institution to particular operations or activities, it is not the sole basis used for decision making.

Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Microfinance Bank's longer term strategic objectives. The Microfinance Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

	Group		Bank	
	2022	2021	2022	2021
7 Interest income	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Interest Income on Loans	597,090	645,378	597,090	645,378
Interest Income on Bank Deposits	58,661	54,577	58,661	54,577
Interest income on Renumerated current A/cs	1,122	1,339	640	1,339
Interest income from government securities	87,909	56,060	86,600	55,892
	744,782	757,354	742,991	757,186
8 Interest expenses				
Interest Expense on deposits	191,290	179,077	192,115	181,120
Interest Expense on borrowings	50,017	51,054	50,017	51,054
Interest expense on lease liability	26,054	24,216	26,054	24,216
	267,361	254,347	268,186	256,390
9 Fees and commission income				
Fees and commissions on loans	45,462	35,928	45,462	35,928
Commissions on guarantees, performance and bid bond income	42,160	72,310	42,160	72,310
Other fees and commission income*	58,720	49,656	33,159	23,914
	146,342	157,895	120,782	132,153
Fees and commission expense	(52,883)	(24,065)	(52,638)	(24,065)
Net fees and commission income	93,459	133,830	68,144	108,088

*Other fees and commission income relate to income obtained from money transfer services, ATM issuance and withdrawal charges and income from various products and services offered.

Fees and commissions expense relates to commissions paid to agents.

	Group and Bank	
	2022	2021
10 Other operating income	Kshs'000'	Kshs'000'
Foreign exchange gains	15,992	9,991
Income from online trading	4,230	3,102
Gains /losses on sale of Treasury Bonds	(13,191)	-
Income from disposal of assets	-	560
Miscellaneous Income	129	486
	7,160	14,139

	Group		Bank	
	2022	2021	2022	2021
11 Administration and operating expenses	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Office operations and supplies	183,639	167,921	181,421	160,676
Office rent and repairs	18,059	15,034	17,410	14,385
Travelling expenses	13,694	6,069	13,382	6,060
Media and advertising	9,146	6,988	9,146	6,994
Professional fees	9,168	32,894	8,958	32,815
Auditors' remuneration	2,747	2,655	2,500	2,435
Director's emolument	5,865	6,765	5,865	6,765
Other expenses	5,799	10,358	5,799	10,358
	248,117	248,684	244,481	240,488

	Group		Bank	
	2022	2021	2022	2021
12 Staff costs	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Staff salaries and wages	339,625	310,455	324,000	297,628
Contributions to defined contribution scheme	12,305	12,408	11,641	11,911
Other staff costs*	49,926	46,126	47,446	44,332
	401,856	368,989	383,087	353,871

*Other staff costs include staff medical costs, staff training and staff welfare.

	Group		Bank	
	2022	2021	2022	2021
13 Depreciation	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Depreciation on property and equipment	83,144	84,610	82,997	84,403
Depreciation on right-of-use assets	66,468	86,065	66,468	86,065
Amortizations on operating lease	-	-	-	(1)
	149,612	170,675	149,465	170,468

14 Taxation

	Group 2022	Group 2021	Bank 2022	Bank 2021
Tax expenses				
Current tax	(1,533)	(2,881)	-	-
Deferred tax charge	(287)	(148)	-	-
	(1,820)	(3,029)	-	-
Tax reconciliation				
Accounting loss before taxation	(285,267)	(145,852)	(289,363)	(149,849)
Tax at the applicable rate of 30% (2021: 30%)	(85,580)	(43,756)	(86,809)	(44,955)
Tax effect on expenses not deducted for tax purposes	2,006	6,756	4,768	10,688
Deferred tax	(287)	(148)	-	-
Deferred tax asset not recognised	82,041	34,119	82,041	34,267
	(1,820)	(3,029)	-	-
Tax recoverable				
At 1 January	(66,635)	(54,917)	(66,235)	(53,461)
Current tax	1,533	2,881	-	-
Tax paid	(14,405)	(14,599)	(13,669)	(12,774)
	(79,507)	(66,635)	(79,904)	(66,235)

	Group and Bank	
	2022	2021
15 Cash balances and deposits with financial institutions	Kshs'000'	Kshs'000'
Cash reserve ratio with Central Bank of Kenya*	157,374	146,871
Cash and balances with banks	167,545	186,652
Deposits with banking institutions**	651,763	896,528
Allowance for ECLs	(12,439)	(9,027)
	806,869	1,074,153

*The cash reserve ratio (relating to restricted funds with the Central Bank of Kenya) is non-interest earning and is based on a percentage of 4.25% of the value of deposits as periodically adjusted by the Central Bank of Kenya. These funds (cash reserve ratio) are not available for use by the bank in its day-to-day operations.

15 Cash balances and deposits with financial institutions (Continued)

	Group and Bank 2022 Kshs'000'	2021 Kshs'000'
**Deposits with banking institutions		
SBM Bank (Kenya) Ltd	590,119	533,762
Chase Bank (K) Limited (IL)	61,644	61,644
Equity Bank of Kenya Limited	-	301,120
	651,763	896,526
Maturing within 90 days	361,648	623,568
Above 90 days	290,115	272,958
	651,763	896,526

The weighted average effective interest rate on short term deposits with banks as at 31 December 2022 was 7.6% (2021 was 5.46%)

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2022	1,230,051	-	-	1,230,051
Net new assets originated	-	-	-	-
Payments and assets derecognised (excluding write offs)	(253,369)	-	-	(253,369)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	976,682	-	-	976,682

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2022	7,450	-	1,577	9,027
Net new assets originated	-		3,412	3,412
Payments and assets derecognised (excluding write offs)	-	-	-	-
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	7,450	-	4,989	12,439

16 Investments

	Group 2022 Kshs'000	Group 2021 Kshs'000	Bank 2022 Kshs'000	Bank 2021 Kshs'000
a) Investment in Government Securities				
Treasury Bonds	415,155	620,850	403,571	610,560
Premium on Bonds	8,008	8,354	8,008	8,354
Discount on treasury bonds	(235)	(502)	(235)	(587)
Net gain/(loss) on fair valuation	(31,637)	(6,789)	(31,637)	(6,789)
	391,291	621,913	379,707	611,538

16 Investments

	Group and Bank 2022 Kshs'000	2021 Kshs'000
b) Investment in subsidiaries companies		
Investment in subsidiaries companies	15,000	-

17 Loan and advances to customers

a) Loans and advance to customers

	Group and Bank 2022 Kshs'000	2021 Kshs'000
Overdrafts	54,474	54,327
Commercial loans	4,106,237	5,212,176
	4,160,711	5,266,503
Accumulated impairment	(687,608)	(1,782,632)
Net loans and advances	3,473,103	3,483,871
Enterprise	1,922,206	2,945,008
Business banking	1,407,099	1,619,099
Chama Banking	138,262	177,673
Agribusiness	52,894	89,523
Consumer	482,606	222,211
Sacco banking	157,644	212,989
	4,160,711	5,266,503
Less: Accumulated impairment	(687,608)	(1,782,632)
	3,473,103	3,483,871

The effective interest on customer advances at 31 December 2022 was 16.5% (2021: 18.2%)
Advances to customers are secured by cash collaterals and chattels mortgages.

Suspended interest relates to unrecognised interest on non-performing loans. Interest income is not recognized for loans deemed non - performing.

b) Accumulated impairment losses	Group and Bank 2022 Kshs'000	2021 Kshs'000
At 1 January	1,782,632	1,733,971
Increase/decrease in suspended interest	(293,885)	87,429
Allowance for Loan write off in 2022	(861,346)	(37,329)
Allowance for credit due to enhanced ECL model	-	5,686
Allowance for credit impairment for the year	60,207	(7,125)
At 31 December	687,608	1,782,632
Suspended interest	439,663	1,155,282
Provision for doubtful debts	247,945	627,350
	687,608	1,782,632

17 Loan and advances to customers (continued)

The table below shows the credit quality and maximum exposure to credit risk based on bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances.

Group and Bank

2022 **Internal rating grade**	**Stage 1 KShs' 000**	**Stage 2 KShs' 000**	**Stage 3 KShs' 000**	**Total KShs' 000**
Normal	1,721,992	-	-	1,721,992
Watch	-	277,046	-	277,046
Substandard	-	-	95,577	95,577
Doubtful	-	-	69,891	69,891
Loss	-	-	1,996,205	1,996,205
Total	1,721,992	277,046	2,161,673	4,160,711

2022 **Internal rating grade**	**Stage 1 KShs' 000**	**Stage 2 KShs' 000**	**Stage 3 KShs' 000**	**Total KShs' 000**
Normal	18,855	-	-	18,855
Watch	-	9,361	-	9,361
Substandard	-	-	8,342	8,342
Doubtful	-	-	5,558	5,558
Loss	-	-	645,492	645,492
Total	18,855	9,361	659,392	687,608

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group and Bank

	12 month ECL (Stage 1) KShs'000	**Lifetime ECL not credit impaired (Stage 2) KShs'000**	**Lifetime ECL credit impaired (Stage 3) KShs'000**	**Total KShs'000**
Gross balance at 1 January 2022	1,564,772	439,566	3,262,165	5,266,503
New financial assets originated or purchased	1,040,958	125,830	160,913	1,327,701
Net remeasurement of loss allowance	(243,547)	(66,111)	(377,540)	(687,198)
Assets written off	-	-	(861,346)	(861,346)
Financial assets derecognised	(485,768)	(140,814)	(258,366)	(884,949)
Transfer to Stage 1	76,187	(52,851)	(23,336)	-
Transfer to Stage 2	(91,496)	108,183	(16,687)	-
Transfer to Stage 3	(139,113)	(136,760)	275,872	-
Balance at 31 December 2022	1,721,992	277,044	2,161,675	4,160,711

Group and Bank

	12 month ECL (Stage 1) KShs'000	**Lifetime ECL not credit impaired (Stage 2) KShs'000**	**Lifetime ECL credit impaired (Stage 3) KShs'000**	**Total KShs'000**
Gross balance at 1 January 2022	6,008	4,096	1,772,528	1,782,632
New financial assets originated or purchased	18,171	9,272	28,291	55,733
Net remeasurement of Assets	9,111	(6,068)	(249,610)	(246,567)
Assets written off	-	-	(861,346)	(861,346)
Financial assets derecognised	(4,051)	(1,733)	(37,059)	(42,843)
Transfer to Stage 1	1,769	(272)	(1,497)	-
Transfer to Stage 2	(4,779)	6,592	(1,812)	-
Transfer to Stage 3	(7,373)	(2,525)	9,898	-
Balance at 31 December 2022	18,855	9,361	659,392	687,608

17 Loan and advances to customers (continued)

b) Accumulated impairment losses (continued)

The table below shows the transfer to statutory reserve:

	Group and Bank 2022 Kshs'000	2021 Kshs'000
Impairment charge as per IFRS 9 requirements	687,608	1,782,632
Impairment charge as per CBK prudential guidelines	(738,308)	(1,839,985)
Transfer to Statutory Reserve	(50,700)	(57,353)

18 Credit loss allowance on financial assets

	Group 2022 Kshs'000	Group 2021 Kshs'000	Bank 2022 Kshs'000	Bank 2021 Kshs'000
Net (write back)/charge on loans and advances (note17)	60,207	(1,439)	60,207	(1,439)
Net (write back)/charge on due from related paties (note19)	-	-	-	-
Net (write back)/charge on Cash Balances and deposits with financial institutions (note 15)	-	40	-	40
Net (write back)/charge on other assets (note 20)	848	6,973	-	6,973
	61,055	5,574	60,207	5,574

19 Related party balances

a) Due from related companies

	Group 2022 Kshs'000	Group 2021 Kshs'000	Bank 2022 Kshs'000	Bank 2021 Kshs'000
Chase Bank Kenya Limited (IL)	72,271	57,165	72,271	39,974
Rafiki Homes	6,317	5,008	6,317	5,008
Rafiki Assurance Agency	-	14,946	10,375	30,414
Allowance for ECLs	(62,039)	(62,039)	(62,039)	(62,039)
	16,549	15,080	26,924	13,357
Current	6,317	19,954	16,692	35,422
Non-current	10,232	(4,874)	10,232	(22,065)
	16,549	15,080	26,924	13,357

b) Due to related companies

	Group and Bank 2022 Kshs'000	2021 Kshs'000
Chase Bank Kenya Limited (IL)	882,405	860,282
Current	-	-
Non-current	882,405	860,282
	882,405	860,282

c) Deposits with financial institutions

Chase Bank Kenya Limited (IL)	53,656	53,656

19 Related party balances (continued)

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2022	19,954	-	57,165	75,396
Net new assets originated	1,309	-	-	1,309
Reclassification of assets	-	-	32,297	32,297
Payments and assets derecognised (excluding write offs)	(30,414)	-	-	(30,414)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	(9,151)	-	89,462	78,588

Bank	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2022	36,798	-	38,598	75,396
Net new assets originated	1,309	-	-	1,309
Reclassification of assets	-	-	32,297	32,297
Payments and assets derecognised (excluding write offs)	(20,039)	-	-	(20,039)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	18,068	-	70,895	88,963

Group and bank	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2022	1,386	-	60,653	62,039
Net new assets originated	-	-	-	-
Payments and assets derecognised (excluding write offs)	-	-	-	-
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	1,386	-	60,653	62,039

Balances due from and due to Chase Bank (K) Limited (IL) are as a result of uncleared cheques and settlements as at the date of receivership.

Both Rafiki Homes and Rafiki Assurance Agency are wholly owned subsidiaries of Rafiki Microfinance Bank Limited. Balances due from Rafiki Homes and Rafiki Assurance Agency arose from reimbursable expenses paid by Rafiki Microfinance Bank Kenya Limited on their behalf.

Included in amount due from Chase Bank Kenya Limited (IL) are interest bearing bank balances. Other outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.
For the year ended 2022, the group recorded Kshs.62,038,924, impairment of receivables relating to amounts owed by related parties (2021: Kshs.62,038,924). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. As at the reporting date, Chase Bank Kenya Limited (IL), controlled the Bank. The other companies are either subsidiaries or are related by virtue of common shareholding and directorship.

19 Related party balances (continued)

d) Loans to employees

	Group and Bank 2022 Kshs'000	Group and Bank 2021 Kshs'000
At 1 January	30,199	34,665
Interest charged	5,445	5,390
Loans disbursed	18,782	13,207
Repayments	(3,667)	(23,062)
At 31 December	50,759	30,199
Current	4,753	1,082
Non-current	46,006	29,117
	50,759	30,199

The loans are secured by property mortgage and assets and are repayable in a period of less than 5 years with an average interest rate of 16.74%.

Chase Bank (Kenya) Limited (IL) is the parent company of Rafiki Microfinance bank Limited. During the year, the bank did not earn any interest income from the Parent Company (2021– Nil).

e) Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	Group and Bank 2022 Kshs'000	Group and Bank 2021 Kshs'000
Salaries	58,011	60,590
Contribution to pension scheme	2,192	2,411
	60,203	63,001
Directors' remuneration	5,865	6,765
Fees for services as directors	14,400	7,166
	20,265	13,930

f) Transactions with related parties

Name of related party	Nature of relationship	Nature of transaction	2022 Kshs'000	2021 Kshs'000
Due from related parties				
Rafiki Homes Ltd	Subsidiary	Expenses paid on behalf	6,317	5,008
Rafiki Assurance Agency	Subsidiary	Expenses paid on behalf	10,375	30,414
Chase Bank IL	Parent company	Cheques Settlement	10,232	(22,065)
			26,924	13,357
Due to related parties				
Chase Bank IL	Parent company	Loan from chase bank	882,405	860,282

19 Related party balances (continued)

g) Deposits due financial institutions

	2022 Kshs'000	2021 Kshs'000
SBM Bank	250,759	276,534
Payable within one year	47,691	73,466
Payable after one year	203,068	203,068
	250,759	276,534

20 Other assets

	Group		Bank	
	2022 Kshs'000	2021 Kshs'000	2022 Kshs'000	2021 Kshs'000
Prepaid expenses	86,822	63,080	85,839	62,119
Guarantee deposits*	23,314	22,931	23,314	22,931
Clearing and settlements	63,840	49,911	57,451	44,814
Accounts receivable	22,039	24,744	18,770	8,583
Allowance for ECLs	(39,210)	(15,944)	(38,762)	(12,658)
	156,805	144,722	146,612	125,789
Current	133,491	121,791	123,298	102,858
Non-current	23,314	22,931	23,314	22,931
	156,805	144,722	146,612	125,789

*Guarantee deposits relate to refundable deposits paid towards leases and utilities

An analysis of gross carrying amounts and corresponding ECL allowances for the year is as follows:

Group	**Stage 1 Individual KShs'000**	**Stage 2 Individual KShs'000**	**Stage 3 KShs'000**	**Total KShs'000**
Gross carrying amount as at 01 January 2022	152,804	-	578	153,382
Net new assets originated	46,571	-	-	46,571
Payments and assets derecognised (excluding write offs)	(2,343)	-	-	(2,343)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	197,032	-	578	197,610

	Stage 1 KShs'000	**Stage 2 KShs'000**	**Stage 3 KShs'000**	**ECL Allowance KShs'000**
ECL allowance as at 01 January 2022	15,937	-	7	15,944
Net new assets originated	-	-	26,104	26,104
Payments and assets derecognised (excluding write offs)	(1,989)	-	-	(1,989)
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	13,948	-	26,111	40,059

20 Other assets (continued)

Bank	Stage 1 Individual KShs'000	Stage 2 Individual KShs'000	Stage 3 KShs'000	Total KShs'000
Gross carrying amount as at 01 January 2022	138,225	-	289	138,514
Net new assets originated	46,889	-	-	46,889
Payments and assets derecognised (excluding write offs)	-	-	-	-
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	185,114	-	289	185,403

	Stage 1 KShs'000	Stage 2 KShs'000	Stage 3 KShs'000	ECL Allowance KShs'000
ECL allowance as at 01 January 2022	12,651	-	7	12,658
Reclassification of ecls	-	-	26,104	26,104
Payments and assets derecognised (excluding write offs)	-	-	-	-
Transfers from stage 1	-	-	-	-
Transfers from stage 2	-	-	-	-
Transfers from stage 3	-	-	-	-
At 31 December 2022	12,651	-	26,111	38,762

21 Property and equipment

Group

	Computer Equipments	Furniture and fittings	Motor vehicles	Automatic Teller Machines	Office Equipment	Work in progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost							
At 1 January 2021	34,785	448,997	19,872	30,317	95,395	30,236	659,602
Additions	1,819	26,760	-	-	477	1,249	30,306
Transfers from WIP	-	1,149	-	-	114	(1,308)	(45)
Disposals*	-	(23,321)	(1,950)	-	(770)	(1,970)	(28,011)
At 31 December 2021	36,604	453,585	17,922	30,317	95,216	28,207	661,852
Depreciation							
At 1 January 2021	29,913	305,054	19,872	21,213	57,750	-	433,803
Charge for the year	2,678	64,540	-	4,499	12,893	-	84,610
Disposals*	-	(18,440)	(1,950)	-	(617)	-	(21,007)
At 31 December 2021	32,591	351,154	17,922	25,712	70,026	-	497,406
Net book value							
At 31 December 2021	4,013	102,431	0	4,605	25,190	28,207	164,446
Cost							
At 1 January 2022	36,604	453,585	17,922	30,317	95,216	28,207	661,852
Additions	3,955	25,174	-	-	784	4,939	34,852
Transfers from WIP	-	-	-	-	-	(391)	(391)
Disposals*	(64)	(13,578)	-	-	(1,023)	(6,852)	(21,516)
At 31 December 2022	40,496	465,180	17,922	30,317	94,978	25,904	674,797
Depreciation							
At 1 January 2022	32,591	351,154	17,922	25,712	70,026	-	497,406
Charge for the year	2,259	64,536		4,167	12,182		83,144
Disposals*	-	(12,597)	-	-	(928)	-	(13,525)
At 31 December 2022	34,850	403,092	17,922	29,879	81,281	-	567,024
Net book value							
At 31 December 2022	5,645	62,088	-	438	13,697	25,904	107,773

* Disposals comprise of consumable assets that were expensed from work in progress and retired assets for Westlands branch during relocation.

21 Property and equipment
Bank

	Computer Equipments	Furniture and fittings	Motor vehicles	Automatic Teller Machines	Office Equipment	Work in progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost							
At 1 January 2021	34,164	448,997	19,872	30,317	95,395	30,236	658,982
Additions	1,819	26,760	-	-	477	1,249	30,306
Transfers from WIP	-	1,149	-	-	114	(1,308)	(45)
Disposals*	-	(23,321)	(1,950)	-	(770)	(1,970)	(28,011)
At 31 December 2021	35,983	453,585	17,922	30,317	95,216	28,207	661,231
Depreciation							
At 1 January 2021	29,623	305,054	19,872	21,213	57,750	-	433,513
Charge for the year	2,471	64,540		4,499	12,893		84,403
Disposals*	-	(18,440)	(1,950)	-	(617)	-	(21,007)
At 31 December 2021	32,094	351,154	17,922	25,712	70,026	-	496,909
Net book value							
At 31 December 2021	3,889	102,431	0	4,605	25,190	28,207	164,322
Cost							
At 1 January 2022	35,983	453,585	17,922	30,317	95,216	28,207	661,231
Additions	3,866	25,174	-	-	784	4,939	34,763
Transfers from WIP	-	-	-	-	-	(391)	(391)
Disposals*	(64)	(13,578)	-	-	(1,023)	(6,852)	(21,516)
At 31 December 2022	39,786	465,180	17,922	30,317	94,978	25,904	674,087
Depreciation							
At 1 January 2022	32,094	351,154	17,922	25,712	70,026	-	496,909
Charge for the year	2,113	64,536		4,167	12,182		82,997
Disposals*	-	(12,597)	-	-	(928)	-	(13,525)
At 31 December 2022	34,207	403,092	17,922	29,879	81,281	-	566,381
Net book value							
At 31 December 2022	5,579	62,088	-	438	13,697	25,904	107,706

* Disposals comprise of consumable assets that were expensed from work in progress and retired assets for Westlands branch during

22 Right-of-use-asset

Year ended 31 December	Group and Bank 2022 Kshs	2021 Kshs
At start of year	199,565	157,429
Additions	16,787	129,187
Transfers	(649)	(986)
Disposal	(212)	-
Depreciation charge for the year	(66,468)	(86,065)
At end of year	149,022	199,565

The company leases various offices. The leases of offices and branches are typically for periods of between 5 and 8 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

For information on the related lease liabilities, see Note 29.

23 Intangible assets

	Group		Bank	
	2022 Kshs'000	2021 Kshs'000	2022 Kshs'000	2021 Kshs'000
Cost				
As at 1 January	63,418	63,418	59,938	59,938
Additions	2,904	-	2,904	-
At 31 December	66,322	63,418	62,842	59,938
Amortisation				
As at 1 January	57,629	54,723	56,397	53,925
Amortisation	2,667	2,906	2,232	2,471
At 31 December	60,296	57,629	58,629	56,397
Net book value				
As at 31 December	6,026	5,789	4,213	3,541

The intangible assets include amounts related to the installation of softwares

24 Deferred tax

The movements in the deferred tax account during the year were as follows:

	Group		Bank	
	2022 Kshs'000	2021 Kshs'000	2022 Kshs'000	2021 Kshs'000
At 1 January	(455,018)	(178,554)	(456,230)	(179,914)
Overprovision in prior years	8,508	(166,190)	8,508	(166,190)
Tax credit for the year	(82,967)	(111,338)	(82,041)	(110,126)
Deferred tax derecognised	528,551	454,870	529,763	456,230
At 31 December	(926)	(1,212)	-	-

Deferred tax income is calculated using the enacted rate of 30% except for capital gains, for which the enacted tax rate of 5% is used. (2021: 30% and 5%).

24 Deferred tax (Continued)

The net deferred tax asset is attributable to the following items:

	Group		Bank	
	2022	2021	2022	2021
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Accelerated capital allowances	(31,627)	(22,571)	(31,660)	(22,552)
Provisions	160	11,271	(94)	11,104
Impairment allowance on loans and advances to customers	(74,290)	(201,407)	(74,290)	(201,407)
Tax losses	(423,719)	(243,375)	(423,719)	(243,375)
Deferred tax derecognised	528,551	454,870	529,763	456,230
Deferred tax asset not recognized during the year	(926)	(1,212)	-	-

Deferred tax asset for the year ended 31 December 2022 of KShs 528,551,000 (2021: KShs 454,870,000) on accumulated tax losses and other temporary differences has not been recognised due to the losses incurred in the last three years. The deferred tax asset will be recognised when the loss trend and projections indicate that the losses will be recovered within the timeliness allowed for the recovery of the tax losses.

25 Share capital

Authorised, issued and fully paid:	Group		Bank	
	2022	2021	2022	2021
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
3,000,000 (2021: 3,000,000) ordinar	3,000,000	3,000,000	3,000,000	3,000,000

The authorised share is capital is divided in to 3 million shares of Kshs.1, 000 each amounting to a value of Kshs. 3,000,000,000. These are fully issued and paid up as at 31 December 2022.
Issued and fully paid ordinary shares carry one vote per share and carry a right to dividend. The Bank does not have any stock option in place.

During the year , the company did not have any capital injection.

	Group		Bank	
	2022	2021	2022	2021
26 Customer deposits	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Savings deposits	1,076,380	1,247,340	1,089,186	1,270,097
Current deposits	371,706	532,396	371,706	532,396
Term deposits	1,849,601	1,525,830	1,862,764	1,533,292
	3,297,687	3,305,566	3,323,656	3,335,785
Current	3,297,687	3,302,485	3,323,656	3,332,704
Non-current		3,081	-	3,081
	3,297,687	3,305,566	3,323,656	3,335,785

The effective interest rate on customer deposits as at 2022 was 5.8% (2021 – 5.7%)

27 Borrowings

	Group and Bank 2022 Kshs'000	2021 Kshs'000
Subordinated debt		
Ministry of Finance	-	18,946
Other debt		
ResponsAbility	179,112	285,808
Youth Enterprise Fund	95,000	95,000
Total borrowings	274,112	399,754
Current	231,354	231,354
Non-current	42,758	168,400
	274,112	399,754

ResponsAbility is a USD. 5,000,000 loan secured by directors, guarantee and is repayable within a period of five (5) years. The applicable rate is 6 months LIBOR plus a margin of 3.9% and the final repayment date is April 2024. The finance cost for the period is Kshs. 17,181,174.77.

Youth Enterprise Fund is a Kshs. 100,000,000 loan secured by directors' guarantee and is repayable within a period of five (5) years. The applicable rate is 1% of utilized amount and the final repayment date was November 2017. There was no accrued finance cost for the period.

The effective interest rate on borrowings at 2022 was 5.3% (2021: 4.8%). The movements in borrowings were as follows:

	2022 Kshs'000	2021 Kshs'000
At 1 January	399,753	501,673
Principal loan repayment	(125,255)	(102,666)
Interest repayment	(12,547)	(21,424)
Interest accrued during the year	12,160	22,170
	274,112	399,753

28 Other liabilities

	Group		Bank	
	2022 Kshs'000	2021 Kshs'000	2022 Kshs'000	2021 Kshs'000
Accrued expenses	18,976	36,427	17,798	35,431
Other liabilities	88,011	126,264	70,701	98,718
ECLS on off-Balance sheet items	3,115	3,115	3,115	3,115
	110,102	165,806	91,614	137,264

Other liabilities include accounts payable to creditors and Bankers cheques issued as at the end of the year.

	Group and Bank	
	2022	**2021**
29 Lease liabilities	**Kshs'000**	**Kshs'000**
Non-current	171,392	134,447
Current	1,799	80,268
	173,191	214,715

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	79,405	59,864
Interest paid on lease liabilities	26,054	24,216
	105,459	84,080

The leases expiring within one year are subject to review at various dates during the next financial year.

The fair values of lease liabilities equal to their carrying amount, as the impact of discounting is not significant.

The carrying amounts of the company's lease liabilities are denominated in Kenya Shillings.

Maturity based on the repayment structure of lease liabilities is as follows:

	2022	**2021**
	Kshs'000	**Kshs'000**
Gross lease liabilities - minimum lease payments		
Not later than 1 year	1,799	80,268
Later than 1 year and not later than 5 years	171,392	132,667
Total gross lease	173,192	212,935
Future interest expense on leases liabilities	54,474	63,214
Present value of lease liabilities	227,665	276,149
Present value of lease liabilities - minimum lease payments		
Not later than 1 year	1,966	95,513
Later than 1 year	225,699	180,636
	227,665	276,149

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 21.

30 Notes to the statement of cash flows	**Note**	**2022 Kshs'000**	**2021 Kshs'000**
a) Group			
Loss before taxation		(285,267)	(149,849)
Adjustments for:			
Allowances for impairment	18	61,055	5,574
Depreciation on property and equipment	21	83,144	84,403
Write off of plant property and equipment		-	3,401
Gain/(Loss) from disposal of Assets		2,645	(560)
Amortisation of computer software	23	2,667	2,471
Foreign exchange gain		(20,222)	(13,093)
Interest expense on Lease	8	26,054	24,216
Interest expense on borrowings		12,160	22,170
Changes in operating assets and liabilities:			
(Decrease)/increase in cash ratio reserve		(10,503)	(22,403)
Increase in loans and advances to customers		(50,287)	331,703
Increase in right of use asset		50,543	(42,136)
Increase in other assets		(12,083)	(23,840)
(Increase)/decrease in amounts due from related parties		(1,469)	971
Increase in customer deposits		(7,879)	308,586
(Decrease)/increase in other liabilities		(55,704)	14,276
Increase in Lease Liability		(41,524)	52,839
Decrease in amounts due to related parties		(10,068)	(15,786)
Cash used in operations		(256,738)	582,943
b) Bank			
Loss before taxation		(289,363)	(149,849)
Adjustments for:			
Allowances for impairment	18	60,207	5,574
Depreciation on property and equipment	21	82,997	84,403
Write off of plant property and equipment		-	3,401
Gain/(Loss) from disposal of Assets		2,645	(560)
Amortisation of computer software	23	2,232	2,471
Foreign exchange gain		(20,222)	(13,093)
Interest expense on Lease	8	26,054	24,216
Interest expense on borrowings		12,160	22,170
Changes in operating assets and liabilities:			
(Decrease)/increase in cash ratio reserve		(10,503)	(22,403)
Increase in loans and advances to customers		(49,439)	331,703
Increase in right of use asset		50,543	(42,136)
Increase in other assets		(20,823)	(23,840)
Increase in Investment in subsidiary companies		(15,000)	-
(Increase)/decrease in amounts due from related parties		(13,567)	971
Increase in customer deposits		(12,129)	308,586
(Decrease)/increase in other liabilities		(45,650)	14,276
Increase in Lease Liability		(41,524)	52,839
Decrease in amounts due to related parties		22,123	(15,786)
Cash used in operations		(259,259)	582,943

30 Notes to the statement of cash flows (continued)

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with Banks, unrestricted current accounts with Central Bank of Kenya and short-term investments in money market instruments, net of bank overdrafts as disclosed in note 15.

31 Contingent liabilities, commitments and leasing arrangements

Capital commitments

To meet the strategic objective of the Bank and our customer need, the Bank enters into various capital commitments to facilitate the construction of Banking Halls to be utilized by the Bank's customers for future business. There were no capital commitments as at 31 December 2022 (2021: Nil)

Contingent Liabilities

The Bank conducts business involving guarantees and performances. The majority of these are offset by corresponding obligations to third parties.

	Group and Bank	
	2022	2021
	Kshs'000	Kshs'000
Letter of guarantee and performance bonds	2,349,051	2,682,506
Expected credit loss	3,115	3,115

Letters of guarantee are written by the Bank to support performance by customers to third parties. The Bank will only be required to meet these obligations in the event of the customers' default.

Legal Claims:

The following material litigation exist against the bank:-

HCCC No. 384 of 2016: YEDFB vs RMFB
In 2017, Youth Enterprise Development Fund Board (YEDFB) instituted a suit against the bank pursuant to a guarantee fund agreement entered into with the bank. Judgment was delivered in favour of YEDFB for Kshs 100,342,693/- plus costs and interest.

In 2021, the bank lodged an appeal (COA Civil Appeal No. E222 of 2022: RMFB vs. YEDFB) which is pending hearing and determination. Subsequently, YEDFB approached the bank for out of court settlement discussions which are ongoing.

The Bank however holds a liability amounting to Kshs 95,000,000/- as balances due to YEDFB as disclosed under note 27.

Lease Arrangements

Operating Lease commitments – Bank as Lessee

The Bank has entered into commercial leases for premises and equipment. These leases have an average life of between five and 8 Years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

The future lease payments in respect of obligations under operating leases are as follows:

31 Contingent liabilities, commitments and leasing arrangements (continued)

Lease Arrangements (continued)

	Group and Bank 2022 Kshs'000	2021 Kshs'000
Within one year	72,377	77,069
Between one and five years	123,078	191,238
Over 5 years	-	1,780
	195,455	270,087

The lease rental expense during the year in respect of bank offices rental amounted to KShs 72 million (2021 – KShs 77 million)

32 Earnings per share

Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There were no such dilutive shares at the end of the reporting period.

The following table reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	Group 2022 Kshs'000	2021 Kshs'000	Bank 2022 Kshs'000	2021 Kshs'000
Loss for the year attributable to shar	(312,020)	(151,665)	(314,211)	(152,718)
Weighted average number of shares	3,000	3,000	3,000	3,000
Basic and diluted earnings per share	(104)	(51)	(105)	(51)

33 Currency

These financial statements are presented in thousands of Kenya Shillings (KShs'000).

34 Incorporation

Rafiki Microfinance Bank Limited is domiciled and incorporated in Kenya under the Kenya Companies Act, 2015.
The holding company is Chase Bank (K) Limited (IL), which is domiciled and incorporated in Kenya.